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C O N F I D E N T I A L LJUBLJANA 000190

SIPDIS

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TAGS: [PREL](#) [PGOV](#) [ETRD](#) [SI](#)

SUBJECT: SCENESETTER FOR DEPUTY SECRETARY ZOELLICK'S VISIT
TO LJUBLJANA

Classified By: COM Thomas B. Robertson for Reasons 1.4 (b) and (d)

[11.](#) (SBU) SUMMARY. Your visit comes as Slovene Prime Minister Janez Jansa completes his first 100 days in office, and the gentlemen's agreement to temper public criticism of the new government terminates. Jansa continues to enjoy strong personal popularity, upwards of 66% in recent polls, despite taking up several controversial issues, such as tax reform, privatization, and labor reform, early on. Jansa and his foreign minister, Dimitrij Rupel, have also set a more positive tone on relations with the U.S. than has been heard in Ljubljana in several years.

[12.](#) (C) Slovenia's foreign affairs agenda in 2005 is dominated by its role as Chairman in Office (CiO) of the OSCE. This is a job Slovenia willingly took on, and it is an area where firm encouragement from the U.S. should help it find the right path through difficult times. One of Jansa's top domestic priorities is to "get the government out of the economy," and to attract more foreign direct investment. Success in this endeavor will require some finesse as the government, through various holdings, has a controlling interest in more than half of the economy. END SUMMARY.

DRAWING CLOSER TO THE US

[13.](#) (C) Your first visit to Ljubljana as Deputy Secretary is a chance to acknowledge Slovenia's growing appreciation of its obligations as a member of NATO and ally of the United States. You should encourage both Jansa and Rupel to stay the course. Public opinion is a mine-field where Iraq is concerned, but Jansa has done a credible job thus far laying the groundwork for possible, eventual Slovene participation in a NATO operation inside Iraq.

OSCE - SPECIAL INTEREST IN KOSOVO

[14.](#) (C) This visit is another opportunity to re-inforce our message on the way forward in the OSCE. Rupel has said that as CiO, he wants to "revitalize, reform and rebalance" the OSCE. In practice, Rupel has demonstrated a preference to mediate the problems within the OSCE rather than provide the strong leadership needed to work out of them. Among specific goals for its Chairmanship, the GOS has made resolving the regional problem of Kosovo in 2005 a top priority. The GOS understands that Kosovo's status will be resolved within the framework of the Contact Group and the UN. For the GOS, however, getting it right on Kosovo is so important it will not be put off this campaign in the context of the OSCE. In its view, ensuring peace and stability in Kosovo is key to ensuring a prosperous future for the region, and, thus, for Slovenia. To that end, Rupel will use his bully pulpit as CiO to press the international community to deal with standards and status in parallel and in earnest. Slovenia has strong economic interests in Kosovo as well, with nearly 30 million Euro in exports in the first half of 2004. Rupel has already visited Kosovo twice since becoming foreign minister in November, and he is likely to have made his third visit by the time of your meeting.

FDI - NEED ACTION BEHIND THE RHETORIC

[15.](#) (C) While Slovene business has been very aggressive in entering regional markets, Slovenia has not been as welcoming to foreign investment. Many Slovenes tend to see FDI as the potential sell-off of the national patrimony. Foreign investors are viewed as unlikely to have the best interests of Slovenia or its workers in mind. The government must do a much better job of explaining the need for it to divest itself from the economy in order to ensure a bright economic

future for Slovenia. PM Jansa has stated publicly he wants to attract more FDI, and this has been echoed by members of his government, but they have not yet elaborated a strategy or plan to take this idea beyond rhetoric.

16. (C) Despite the government's weak performance, there has, in fact, been one new major investment since Jansa took office. Denver-based United Global Telecom purchased Slovenia's number one cable provider, Telemach, for approximately \$95 million in March 2005. At the same time, the largest U.S. investor to-date, Western Wireless International (WWI), is preparing to exit the market in failure. Unfortunately, the Government of Slovenia does not appreciate the damage to its own reputation this failure represents. Our latest discussions with the GOS on the WWI situation are not encouraging. Barring a solution between WWI and Slovene wireless telecom provider, Mobitel, the GOS believes the WWI case is weak and seems prepared to go to court and defend itself.

THE ECONOMY - NO PAIN, NO GAIN

17. (C) Slovenia is, in a sense, a victim of its own success. Well ahead of its neighbors in economic development at the time of independence, Slovenia has not had to make difficult or dramatic changes to its system to sustain a comfortable standard of living for its citizens. It has experienced steady economic growth of 3-4% over the last several years. Continuing this growth and controlling inflation are critical as Slovenia prepares for its top economic priority - adopting the Euro by 2007.

18. (C) With all that Slovenia has going for it: a talented workforce, good infrastructure, a secure environment and a stable government, we are watching business opportunities pass right over Ljubljana and make Bratislava the first stop in the region. Part of this is poor marketing: Slovenia, a tiny country which did not exist 15 years ago, has failed to aggressively place itself on the world map (as Slovakia has done so successfully.) Beyond that, however, complaints of current investors as well as Slovene business owners are increasing. There is growing frustration with high labor costs and an inflexible work force, a glacially slow legal system and a general lack of transparency in the bureaucracy. Rather than positioning itself as an open and friendly destination for investments, Slovenia is viewed as an insular and difficult environment in which to do business. For Slovenia to realize its goal of being the leading edge of stability in prosperity in south eastern Europe, it must recognize and believe in the need to attract vibrant new investment. To do this, it must undertake to reform its labor system and minimize the bureaucracy of establishing businesses. It must also get out there and sell itself to potential investors.

ROBERTSON

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